

NO PROTEST RECEIVED
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Date 6-15-89

Surname [REDACTED]

[REDACTED]

Employer Identification Number: [REDACTED]
Key District Office: Atlanta

ant:

We have completed our consideration of your application for recognition of exemption from federal income tax. We have concluded that you are not exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. The reasons for our conclusions are explained below.

The information submitted indicates that you were organized on [REDACTED] under the laws of the State of [REDACTED].

Your purpose, as stated in your Application for Exemption, is to assist your tax-exempt sponsor, [REDACTED], ("Hospital"), in the delivery of charitable health care for the community. The primary activity you will engage in to further this purpose will be the establishment of a preferred provider organization that develops a network of health care providers for the Hospital by contracting with preferred providers, hospitals, health insurers, and employees and by providing a cost effective health care claims administration service for employers who are self insured.

You will receive your revenues solely from fees paid by employers to compensate you for your services in arranging health care services for employee groups at reduced rates.

Your Bylaws state that you are a membership organization. All hospitals and physicians who hold effective and non-suspended provider agreements with you are your members. Your Bylaws also provide that your board of directors is comprised of [REDACTED] members. [REDACTED] directors shall be appointed while [REDACTED] physician board members are elected. [REDACTED] directors shall be appointed by the hospital member while the remaining board positions shall be filled as follows: One director shall be appointed by the hospital directors. One director shall be appointed by the physician directors. One director shall be appointed jointly by both the three physician directors and the three hospital directors.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations provides, in part, that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities that accomplish one or more of such purposes described in section 501(c)(3) of the Code, but will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for any of the purposes specified in section 501(c)(3) of the Code unless it serves a public rather than a private interest. Thus, to qualify under section 501(c)(3), an organization must establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or the creator's family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests. Moreover, the presence of a single nonexempt purpose substantial in nature, such as the promotion of the business activities of its organizers, will prevent exemption. See Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279 (1945).

Section 1.501(c)(3)-1(e)(1) of the regulations provides that an organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 513. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the activities which are in furtherance of one or more exempt purposes.

Revenue Ruling 86-98, 1986-2 C.B. 75, provides that an individual practice association ("IPA") that served as a bargaining agent for its members and performed administrative claims services could not qualify for exemption under section 501(c)(4). The Service found that the IPA operated for the private benefit of member physicians since its primary functions were to provide its member physicians access to a large group of patients.

Based on the information submitted, we have concluded that, although your activities may contribute to the achievement of charitable purposes, your activities will not be engaged in exclusively in furtherance of exempt purposes within the meaning of section 501(c)(3) of the Code. Although your activities benefit the Hospital, they also benefit the private pecuniary interests of the physicians participating in the PPO network in more than an incidental manner. You benefit participating physicians by attracting additional patients and increasing the provider's market share. The physicians receiving the benefits helped you organize and share control of your organization. Therefore, you serve private rather than public interest. See 1.501(c)(3)-1(d)(1)(ii) of the regulations and Rev. Rul. 86-98.

Accordingly, we conclude that you are not exempt from federal income tax under section 501(c)(3) of the Code.

You are required to file federal income tax returns. Contributions to your organization are not deductible under section 170(c) of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted in duplicate, within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(3) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, if you have any questions about your federal income tax status, including questions concerning reporting requirements please contact your key District Director. The

[REDACTED]

appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: E:EO:R:2-6, Room 6514. These symbols do not refer to your case but rather to its location.

Sincerely yours,

(Signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Rulings Branch 2

cc: [REDACTED]
Attn: EO Group

cc: [REDACTED]

cc: [REDACTED]

[REDACTED]